

# Don Rodrigo solar, Spain

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The 170MWp Don Rodrigo solar project in Spain – developed by German developer BayWa r.e. – is one of the largest solar projects in Europe. This week (April 2018) BayWa r.e. signed a 15-year PPA with utility Statkraft, which is believed to set a new long-term precedent for no-subsidy Spanish solar.

The Spanish solar market has already reached grid parity thanks to the fall in construction and panel costs, and it is increasingly crowded from a grid connection standpoint. PPAs are available from utilities, traders and corporates alike – with ever more corporates exploring this option – while the Spanish and German banks are preparing to back the PPAs with long-term senior debt as soon as this year (2018).

## **Don Rodrigo**

On 10 April (2018), Munich-headquartered BayWa r.e. announced it was pressing ahead with construction works for the subsidy-free Don Rodrigo solar PV plant. The outsized solar project could prove a boon for a bankable Spanish solar industry – though its name evokes a villainous king from Ginastera’s Spanish opera as well as an Italian literary rogue.

Last year (2017), BayWa r.e. estimated that construction costs for solar projects would be around €0.70 (\$0.87) per watt capacity by now, which it still thinks is a roughly accurate estimate. By that estimate, Don Rodrigo's cost would amount to €119 million. Panels will be provided by an undisclosed European manufacturer.

The project construction can launch this week (April 2018), following signing of a 15-year PPA with Norwegian power producer and supplier Statkraft.

BayWa r.e. was seeking to get the longest PPA possible, willing go down slightly on the price of power to achieve it. Statkraft was not the only potential offtaker in the running however, with BayWa r.e. spending last year (2017) in talks with industrials, traders and utilities.

The price of the PPA is a bit below €40 per MWh, *IJGlobal* understands, though the price is not fixed for the whole duration of the contract.

Market participants say that a 10-year PPA for no-subsidy solar in Spain would be expected to price around the low €40s per MWh at this time.

The PPA represents Statkraft's first in the Spanish market, where it intends to grow. Statkraft is buying 100% of the Don Rodrigo plant’s output, and will be marketing it to customers in Spain via bilateral contracts or via the market.

BayWa r.e. in 2013 selected a site for Don Rodrigo south of Seville, and it took around four years to gain the necessary permissions. The municipality of Alcalá de Guadaíra gave its approval to Don Rodrigo a few weeks ago. BayWa r.e. did not bid in the Spanish solar auctions for this project, and already had a grid connection obtained.

BayWa r.e. will construct and operate the plant itself. The developer is building the 220kV connection to a substation 2km away owned by Red Eléctrica de España, from which energy will go into the national grid.

Cuatrecasas acted as legal adviser to BayWa r.e.

## Funding

Construction will be fully-funded on BayWa r.e.'s balance sheet, though the developer has held some initial talks with possible buyers of the project already and is likely to launch a sale in the summer (2018).

It would be up to investors whether to introduce leverage. But BayWa r.e. has courted discussions with banks already, to ensure it is structuring a bankable project. The exercise has been positive with Spanish and German banks making offers to lend.

*IJGlobal* understands that more generally, the most eager lenders in Spanish solar include Banco Sabadell, Bankia, Santander, CaixaBank and BBVA, as well as German banks including Deutsche Bank. Watson Farley & Williams' Madrid banking and finance head Rodrigo Berasategui says: "Banks could do tenors of even 16 years...It is increasingly going up. There are two tendencies: hard mini-perm and fully amortising schemes. Many senior debt financings should close later this year."

Partner and head of energy & utilities at Osborne Clarke Spain Luis Castro said: "Banks are requiring a PPA structure of 10-15 years minimum. Leverage on solar deals in Spain several years ago used to be 80% debt, but now it tends to be in the region of 40-60% debt."

## No subsidies, no problemo

BayWa r.e. is set to do more in the space. The company's Solar Projects managing director Benedikt Ortmann tells *IJGlobal* the company has a further pipeline of around 250MW of Spanish subsidy-free solar, as well as pipelines of 100MW-plus in Italy, Greece and Portugal. "We expect grid parity could be only a couple of years away for solar across all of France and Germany – not just southern France – and we are also looking at potential projects there," he says.

BayWa r.e. chose not to participate in Spanish solar capacity auctions last year (2017), preferring to develop projects without. There is significant uncertainty in the Spanish renewables feed-in-tariff (FiT) regime with prices adjusting every six-year regulatory period in relation to bond price movements. In fact, BayWa r.e. is suing the Spanish government regarding the retroactive FiT changes, but that relates to a project in the wind sector – La Muela.

Most bidders in the 2015 and 2017 solar auctions bid and won their capacity with zero tariffs. They were really chasing the grid connections and will rely on PPAs. The winners must connect their projects by the end of 2019, however.

Outside of the auction, applying to the distribution network operators for a connection can take around a year.

Ortmann says: "It is not so easy in this market to get a grid connection. Many developers are reserving land and making significant down payments to utilities to reserve the connections." This crowding and competition is rising, as more developers are realising it is feasible to go for grid parity.

However David Diez, regulatory partner at Watson Farley & Williams, says: "The Spanish solar PV association UNEF has said that 23-25GW of projects have been presented guarantees for access to the grid. Only 4.5GW of that was in the government auction."

Foresight Group partner Ricardo Piñeiro says in southern European solar, the unlevered IRR generally available in today's market is in the high single digits. Foresight is investing in solar PV in Spain with no subsidies.

Through its retail funds, last year (2017) Foresight financed the 8MW [Torre de Cotillas 1](#) project in Murcia, Spain. Grupo Villar Mir unit and energy trader Energya-VM is offtaker for the deal with a 10-year PPA. Now [Foresight is assessing](#) the potential to launch a dedicated vehicle for Iberian solar projects, as reported by *IJGlobal*.

Traders are normally required as intermediaries for the corporate offtakers in Spain. Key players include Axpo, Nexus Energy and Energya-VM.

### Framework agreements

Another important deal for the sector is Cox Energy's 20-year offtake framework agreement signed last month (March 2018) with Spanish power distributor Audax, covering 660MW of Spanish and Portuguese projects.

Foresight recently entered into a corporate PPA framework agreement with an international, investment grade industrial player and one of the largest energy consumers in Spain. This agreement would cover up to 100MW of Foresight Iberian solar projects, with the price of the PPA for each project fixed separately for a period of 10 years from the date of commission.

### Constructing a market

Participants involved in Spanish solar right now are constructing a new market.

Diez comments: "More and more industrials have appetite, with prices in electricity market expected to rise in the short-to mid-term and with sustainability goals. We see corporates in telecoms, retail and food sectors, for example."

Castro comments: "Historically, the Spanish solar market has been very focused on feed-in-tariffs so there is limited experience in negotiating the PPA structure when compared with the UK. {This market} is learning a lot from British colleagues, but the complexity arises from the combination of UK PPA structures and Spanish regulation, with international players."

The Ministry of Industry, Tourism and Digital Agenda published a report this month (April 2018), recognising that solar PV is on track to be their leading source of energy by 2030, with around 77GW installed in the most optimistic forecasts.

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